RECORD AND BRIEFS

No. 16-969

IN THE

Supreme Court of the United States

SAS INSTITUTE INC.,

Petitioner,

v.

MICHELLE K. LEE, Director, U.S. Patent and Trademark Office, and COMPLEMENTSOFT, LLC,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY FOR PETITIONER

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TABLE OF CONTENTS

Page

REPLY FOR PETITIONER 1

CONCLUSION 8

TABLE OF AUTHORITIES

Page(s)

CASES

Cohen v. Beneficial Indus. Loan Corp.,
337 U.S. 541 (1949) 4

Synopsys, Inc. v. Mentor Graphics Corp.,
814 F.3d 1309 (Fed. Cir. 2016) 5, 7

Waterkeeper Alliance v. EPA,
No. 09-1017, 2017 WL 1323525
(D.C. Cir. April 11, 2017) 7

STATUTES

35 U.S.C. § 112 3

35 U.S.C. § 311 7

35 U.S.C. § 315 7

35 U.S.C. § 316 ..... 4, 5, 6

35 U.S.C. § 318 ..... 1, 2, 6

OTHER AUTHORITIES

FED. R. CIV. P. 12 4

John R. Allison, Mark A. Lemley &
David L. Schwartz, *Understanding the Realities of Modern Patent Litigation*, 92 Tex. L. Rev. 1769
(2014) 7

REPLY FOR PETITIONER

Congress commanded the Patent Office's Patent Trial and Appeal Board that, in inter partes review cases, the Board "shall" produce "a final written decision" addressing "the patentability of any patent claim challenged by the petitioner." 35 U.S.C. § 318(a). The Patent Office has instead determined that its final written decisions need only address the patentability of some of the claims that the petitioner challenged.

The question presented is nothing less than this: Who makes the laws in this country—the National Legislature or an executive agency?

1. The issue is undeniably important. Respondents nowhere deny SAS's showings (Pet. 23-25) that this question is squarely presented, has been fully ventilated within the Federal Circuit's exclusive patent jurisdiction, and is critically important to the orderly administration of the United States patent system. For that matter, the Director agrees that the issue presented here affects all aspects of post-issuance review, not just inter partes reviews. *See* Pet. 4 n.1; Opp. 2 n.1. Finally, with one exception, Respondents do not deny SAS's showing that this case is an ideal vehicle for addressing this admittedly important issue.

2. That single exception is found in the Director's half-hearted claim that the Federal Circuit lacked jurisdiction to decide an issue that SAS has never challenged—"that the PTO was required to institute review of every claim challenged in the petition for inter partes review." Opp. 9 (citing 35 U.S.C. § 314(d)). The Director calls this issue a "key

predicate" to SAS's argument, but that gives away the Director's strategy of misdirection: That issue is only a "key predicate" to the Director's argument; it is not SAS's argument, nor even a predicate thereto.

The petition, and the record, are clear: SAS challenges only the Federal Circuit's interpretation of 35 U.S.C. § 318(a)—the mandatory final-written-decision-on-all-challenged-claims requirement. *See, e.g.*, Pet. i, 6, 8, 9, 10, 11, 12, 15, 23, 24. And the Federal Circuit squarely decided exactly this issue adverse to SAS. *See, e.g.*, Pet. App. 20a ("SAS also argues that the Board erred by not addressing in the final written decision every '936 patent claim SAS challenged in its IPR petition."); *id.* at 21a ("[W]e reject SAS's argument that the Board must address all claims challenged in an IPR petition in its final written decision."). The Federal Circuit squarely addressed this pure question of law, and it is now ripe for this Court's review.

3. Since the issue is admittedly important, and the issue of law is pure and squarely presented, the Director is left to argue that the Federal Circuit's decision was correct as a matter of statutory interpretation, and that the Patent Office's generalized rulemaking authority somehow justifies its wholesale reconfiguration of Congress's plan for inter partes review. Neither argument is correct. Indeed, both of the Director's arguments only underscore the importance of the issue and the need for this Court's review now, lest this *ultra vires* regime become cemented into national law under the Federal Circuit's exclusive nationwide jurisdiction over patent cases.

a. As to statutory interpretation, the Director sets up and knocks down straw-man arguments at every turn. She cites sections 312 (requirements for petitions), 314 (threshold for institution), 315 (estoppel on finally decided claims), and 318 (the final-written-decision requirement) to support the unexceptional premise of her argument—that the AIA "explicitly requires claim-specific analysis at least to some extent." Opp. 12. From that premise, she draws the conclusion that the statute "cannot reasonably be construed to forbid claim-by-claim analysis" (*id.*), because "[e]very relevant aspect of the inter partes review process is . . . claim-specific." Opp. 13. Of course inter partes review is claim-specific, and SAS has never argued that the statute "forbid[s] claim-by-claim analysis." Patent claims define inventions, *see* 35 U.S.C. § 112(b), and only patent claims can be held unpatentable. To that extent, all challenges to patentability—whether under the AIA or in ordinary district-court invalidity litigation—are "claim-specific."

But that is not the question here. Rather, the question is whether the Patent Office correctly read the mandate of section 318—the Board "shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner"—as arrogating to the Patent Office the ability to narrow the scope of that mandatory "final written decision" from "any patent claim challenged by the petitioner" to "only those claims chosen for adjudication by the Director."

When that correct question is asked, the correct answer becomes manifest. Congress's version of the AIA envisions an efficient, administrative substitute

for district-court invalidity litigation, whereby the petitioner picks the claims to be challenged, the Director decides whether the petition meets the minimal threshold for initiating an inter partes review, and the end result is either a denial of review (which leaves the patentability issues for the district courts), or a final written decision on all of those challenged claims, fully appealable to the Federal Circuit and having estoppel effect upon later patentability litigation in the district courts. Pet. 16-18.*

The Director, however, claims that the only efficiency that matters is the "the efficient operation of the Office and the ability of the Office to complete the proceeding within the one-year timeframe" of 35 U.S.C. § 316(a)(11). Opp. 14 (quoting 77 Fed. Reg. 48,680 48,703 (Aug. 14, 2012)). But, as SAS showed in the petition, administrative efficiency is no excuse for refusing to honor the clear text of legislation (Pet. 20-21), and, more importantly, Congress plainly

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* In ordinary civil litigation, claims dismissed at the threshold of a case (*e.g.*, under FED. R. CIV. P. 12(b)) nonetheless merge into the final judgment, whereby even those early-dismissed claims can be appealed—or given res judicata or collateral estoppel effect in future litigation. *See, e.g.*, *Cohen v. Beneficial Indus. Loan Corp.*, 337 U.S. 541, 546 (1949) ("fully consummated decisions" that are interlocutory "are but steps toward final judgment in which they will merge"). Congress's version of the AIA envisioned that inter partes review would work similarly—all claims challenged by the petitioner would be the subject of a final written decision which is both appealable and estopping. The Patent Office's version of the AIA, however, causes that Office to issue reasoned rejections of certain patent claims at the outset of inter partes review, but, solely due to agency fiat, those rejections can never be appealed or given estoppel effect. *See* Pet. 20-21.

designed inter partes review under the AIA to be efficient for all—the courts, litigants, and the agency. The AIA provides no warrant for the Patent Office to selfishly favor its own efficiencies to the exclusion of those of the parties and the courts.

The Patent Office's version of the AIA instead substitutes a complicated, expensive, two-front regime for challenging patent claims that is inefficient for everyone *but* the Patent Office. Congress's version was not only better policy; it was the version that was actually enacted by the legislative branch.

b. The Director's appeal to *Chevron* deference fares no better, for the clarity of the statute shows the Board's rules to be *ultra vires*. The Director relies on 35 U.S.C. § 316(a)(2) and (4), which authorize the PTO to promulgate regulations setting forth "the standards for the showing of sufficient grounds to institute a review" and "establishing and governing inter partes review" as a general matter. Opp. 13. In brief, the Director says, it was permissible for the PTO to adopt a regime of instituting inter partes reviews on fewer than all challenged claims, and having done so, "the statute would make very little sense if it required the Board to issue final decisions addressing patent claims for which inter partes review had not been initiated." Opp. 15 (quoting *Synopsys, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309, 1315 (Fed. Cir. 2016)).

Here, again, the Director trivializes the statutory text. She avoids confronting the language of the statutory provision in question here—Section 318(a)—and instead defends the Board's extra-

statutory partial-institution procedures as "at a minimum reasonable and therefore entitled to deference." Opp. 13. The logic of the Director's argument is that "each claim challenged" in the petition (Section 312(a)(3)) does not actually mean the same thing as "any patent claim challenged by the petitioner" (Section 318(a)), because, where the Director exercises authority to institute review on fewer than all of the claims, that somehow changes the meaning of the virtually identical term in Section 318(a). Only a lawyer could love that kind of parsing of words.

The fundamental problem with the Director's argument is that the Patent Office nowhere purported to interpret or redefine the scope of Section 318(a)'s mandate—a final written decision on "any patent claim challenged by the petitioner." Nor would the statute's delegation of certain regulatory authority to the Director have allowed her to do so. Section 316(a) required the Director to prescribe regulations addressing 13 specified aspects of the inter partes review process. 35 U.S.C. § 316(a)(1)-(13). None of those 13 paragraphs—not even Section 316(a)(4)'s "regulations . . . establishing and governing inter partes review *under this chapter*" (emphasis added)—gave the Director authority to change the scope of the final written decision mandated "under this chapter." Congress already did that job in Section 318(a), and did it so clearly that no regulatory alteration or supplementation was either envisioned or allowed.

The "very little sense" identified by the *Synopsys* panel majority is thus a creation of the Patent Office's refusal to abide the Congressional plan; it is

not an ambiguity of the statute itself. As SAS showed (Pet. 22), this kind of wholesale redrafting of the AIA's adjudicatory system raises precisely the concerns about the structure of our representative government that have been voiced by Justice Thomas, by now-Justice Gorsuch, and most recently, by Judge Brown of the D.C. Circuit. *Waterkeeper Alliance v. EPA*, No. 09-1017, 2017 WL 1323525, at *9 (D.C. Cir. April 11, 2017) (Brown, J., concurring) ("If a court could purport fealty to *Chevron* while subjugating statutory clarity to agency 'reasonableness,' textualism will be trivialized.").

c. As SAS showed (Pet. 15-18), and as Judge Newman has three times emphasized in dissent (*Synopsys*, 814 F.3d at 1327-31; Pet. App. 30a-38a; Pet. App. 97a-100a), the Federal Circuit's blessing of the Patent Office's overreach destroys the efficiencies that Congress designed into the AIA through the application of estoppel from a final decision. *See* 35 U.S.C. § 315(e).

The Director's response is to say that "inter partes review is not a complete substitute for litigation," Opp. 18, referring to the Act's limitation to "ground[s] that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents or printed publications." 35 U.S.C. § 311(b). But the point is that all of these grounds where the Board does have competence and authority—and which constitute the lion's share of invalidity defenses in district court litigation in any event, *see* John R. Allison, Mark A. Lemley & David L. Schwartz, *Understanding the Realities of Modern Patent Litigation*, 92 Tex. L. Rev. 1769, 1787 (2014) (almost 60% of invalidity defenses in district-court litigation

are under 35 U.S.C. § 102 or § 103)—would now be resolved in the Patent Office. The fact that there are a handful of invalidity defenses that are outside the Board's authority does not provide an excuse for the Patent Office to gut, by rule, the efficiencies of the Congressional drafters' design.

* * * * *

The fact that the Department of Justice as IPR petitioner took a fundamentally different view of the statute than does the Department of Justice as lawyer for the Director of the Patent Office (*compare* Pet. 18, 20 *with* Opp. 19 n.4) only punctuates the reasons why this Court's review is needed. It shows that the issue is indeed important—the extra-statutory regime adopted by regulation even prejudices the government as litigant—and that the Federal Circuit's decision was not so obviously correct as the Director now claims it to be.

The petition should be granted.

Respectfully submitted,

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